



Human Resources Outsourcing (HRO) Annual Report – Preview Deck

November 2007

Background of the research

The Human Resource Outsourcing (HRO) market has reached a critical juncture in its 10 year history with market size increasing but at a slower growth rate. While buyers are increasingly looking at HRO for multiple value creation opportunities, suppliers are seeking the most optimal way to provide improved services to clients at a cost that still allows for a profit

Given this backdrop, this report provides comprehensive coverage of the global 2007 HRO market including detailed analyses on market size and buyer adoption, transaction characteristics, and supplier landscape

The scope of this research includes

- All human resources outsourcing contracts as of July 30, 2007 with a minimum of three HR functions and servicing more than 3,000 employees
- Global focus: North America, Europe, Asia Pacific, and Latin America
- All suppliers having signed at least one HRO transactions
- All industries

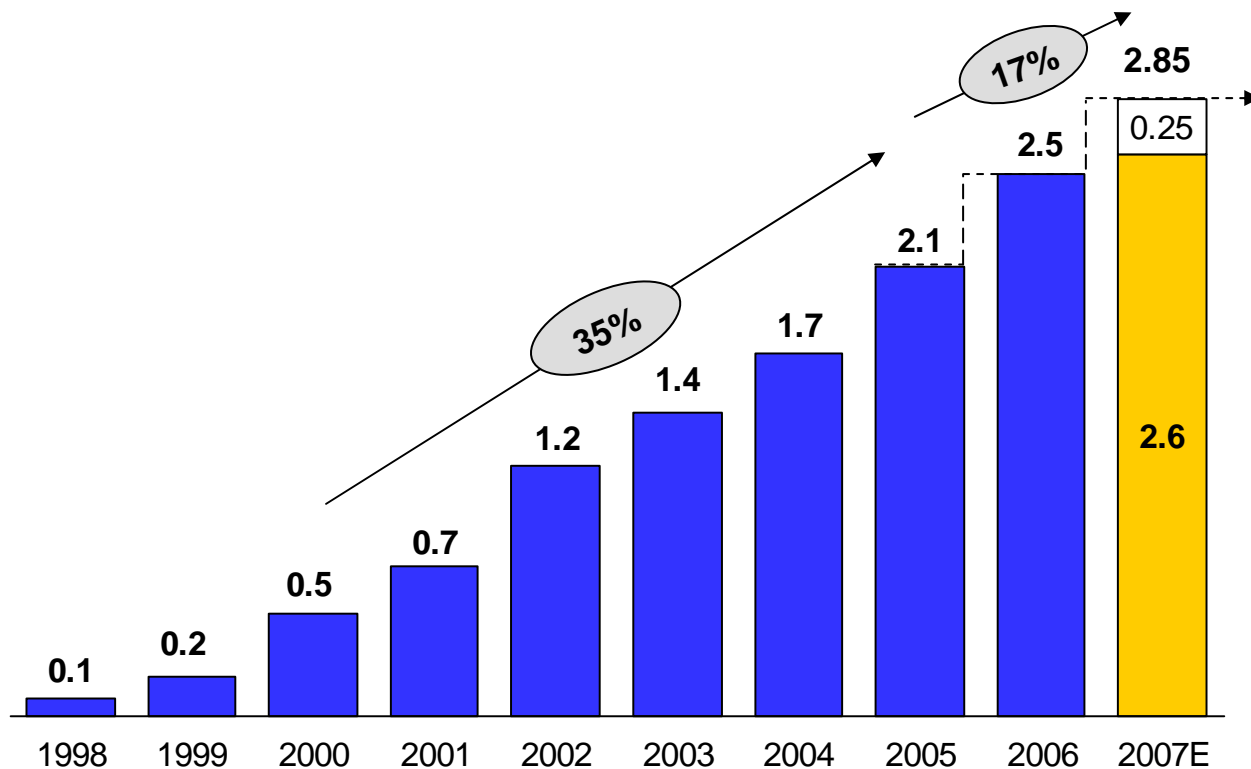
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In terms of annualized revenues, the HRO market is growing, but at a decelerated rate, and we expect it to reach US\$2.85 billion in 2007

Annual Contract Value
1998-2007; US\$ billion

□ Projected through Dec 2007¹
■ Data up to July 2007



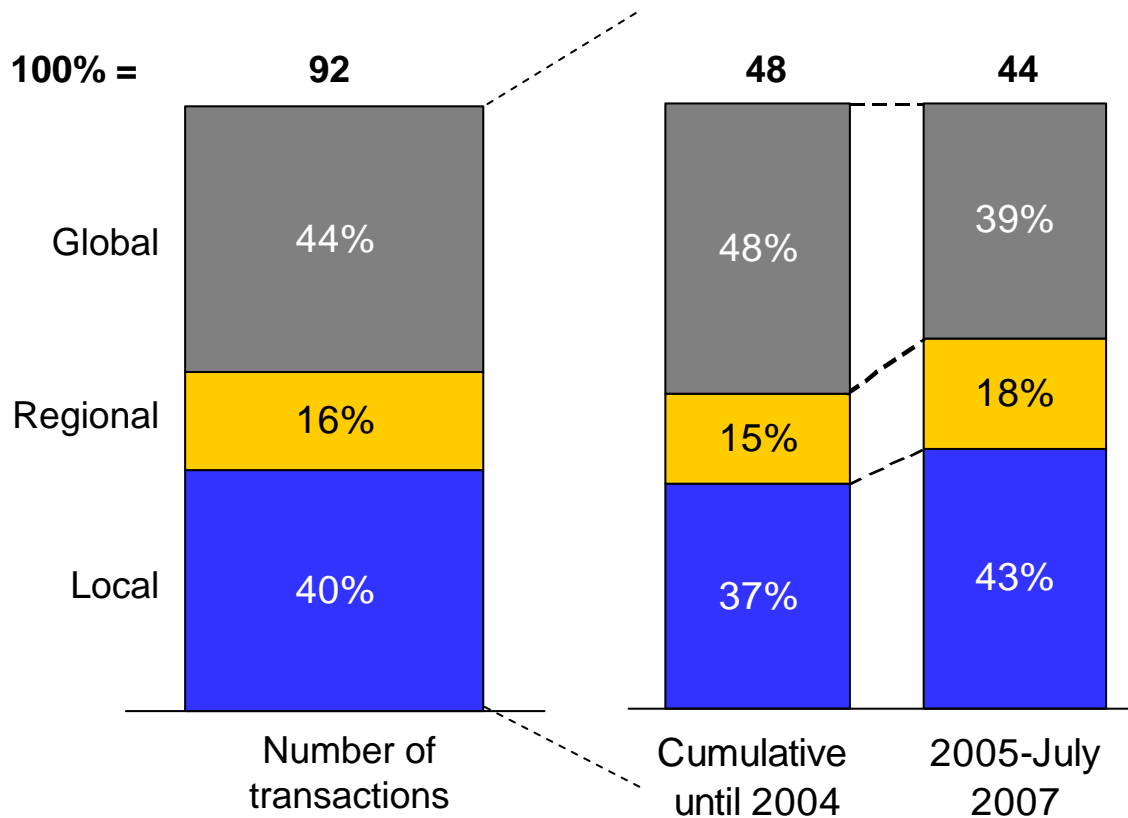
- 2006 highlights: ACV grew from US\$2.1 billion to US\$2.5 billion, representing a growth of 19% on year-on-year (Y-O-Y) basis
- 2007 projection: Annual revenues are expected to reach US\$2.85 billion, representing a growth of 14% on Y-O-Y basis
- The market is growing, but at a slower pace than in previous years

¹ Projections based on the average deal term (6.5 years) and cumulative TCV of the deals expected to be signed in Aug to Dec period
Sample size: 207 transactions signed as of July 2007
Source: Everest Research Institute (2007)

Global buyers¹ are adopting a phased approach leading to lesser number of global HRO transactions

Geographic scope of transactions for buyers having global operations

Number of transactions



Global buyers are adopting HRO in a phased manner, starting with local or regional geographic scope. Limited geographic scope reduces the complexity of languages, jurisdictions, technologies, and government regulations for both buyers and suppliers. This can potentially influence a successful outcome. Buyers may decide to increase the geographic scope, based on the results achieved after an initial phase

¹ Defined in Appendix


Sample size: 92 HRO transactions, signed by buyers with global operations, for which company information was available

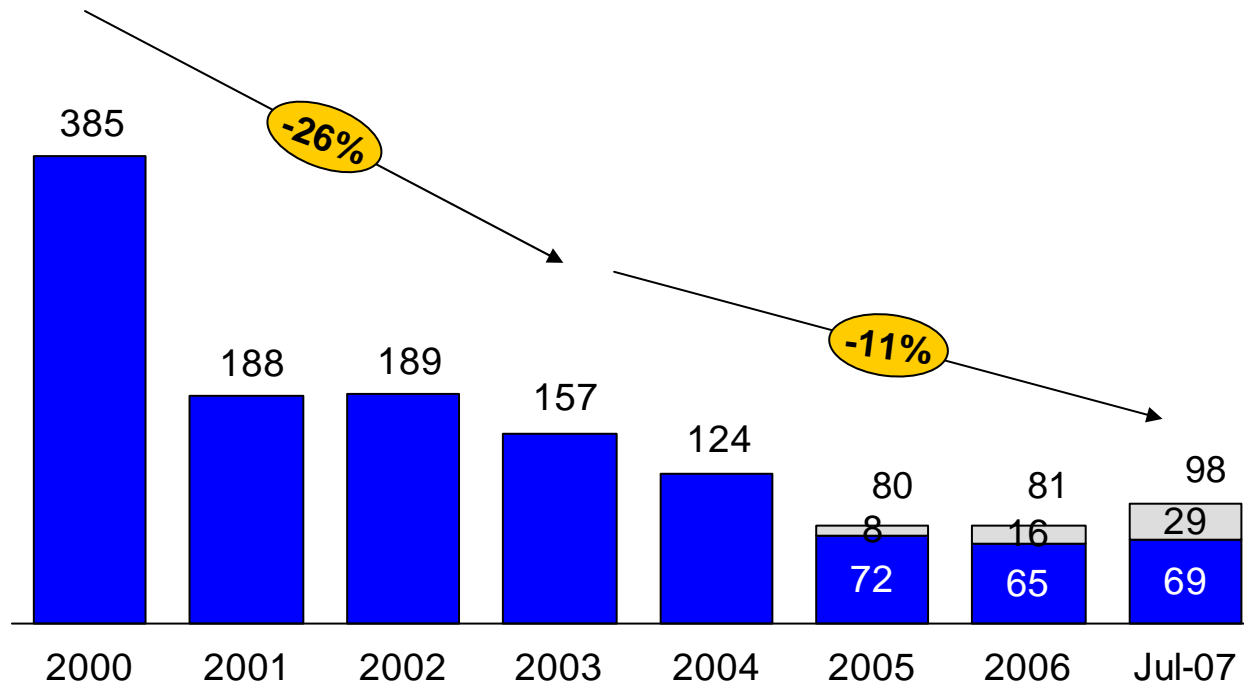
Source: Everest Research Institute (2007)

The average HRO transaction size (measured in TCV) declined since 2000 and remains less than US\$100 million

Average HRO transaction size

2000-July 2007; US\$ million, three-year trailing average¹

 Increase in average TCV due to inclusion of mega² HRO deals



The 3 mega-deals in HRO history are:

- 2007: Convergys – Johnson & Johnson
- 2006: Accenture – Unilever
- 2005: Convergys – DuPont

¹ Average over 3 years, including the mentioned year and past 2 years

² HRO deals with TCV greater than US\$1 billion

Sample size: 202 transactions signed as of July 2007

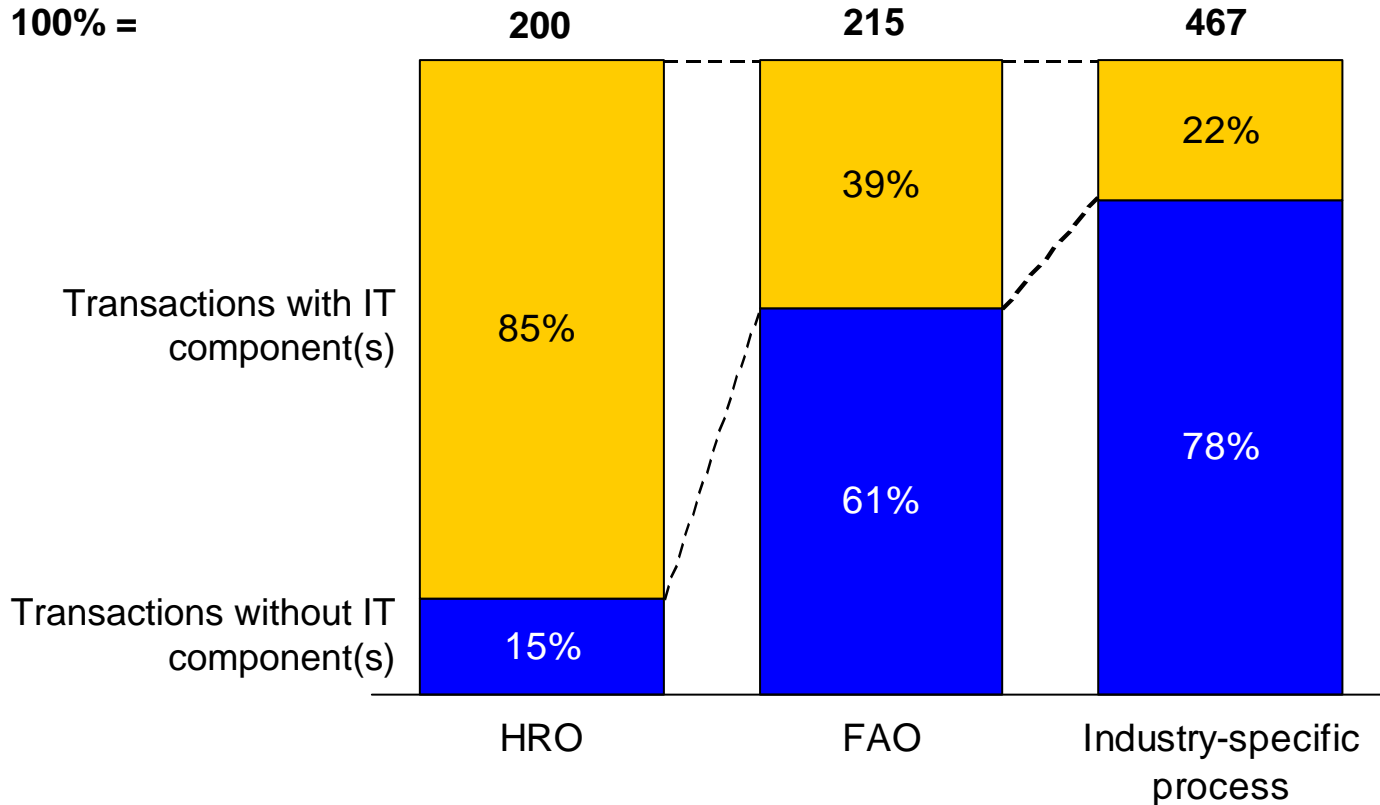
Source: Everest Research Institute (2007)

The bundling of IT into BPO is much higher in HR compared to other functions, highlighting how technology transformation is a primary driver of HRO

Frequency of combination of business process outsourcing with associated IT services

Number of transactions

100% =

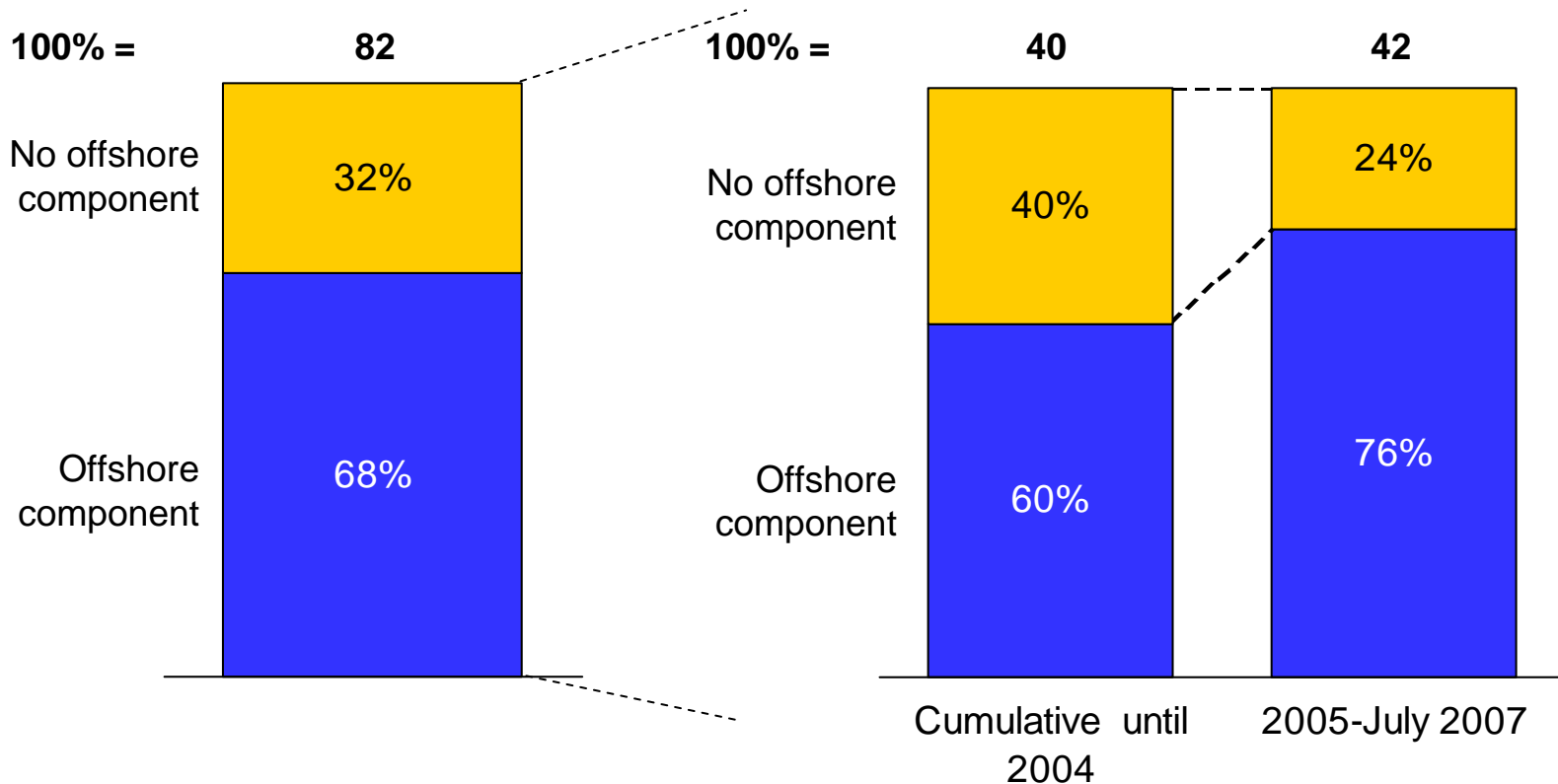


Source: Everest Research Institute (2007)

Suppliers increasingly leverage offshore locations in the >15K employee segment

Transactions with offshore component in the >15K employee segment

Number of transactions, percentage



Sample size: 82 HRO transactions, signed within the >15K employee segment, for which offshore information is available

Source: Everest Research Institute (2007)

New HRO suppliers are entering the market, while a few existing HRO suppliers scaled back HRO offerings

Regional and emerging HRO players

- Players with at least one HRO deal signed – These suppliers currently service local/regional deals within Europe

CAPITA
HR & PAYROLL SERVICES

logicaCMG

xansa
OUTSOURCING & TECHNOLOGY

- Traditional offshore-centric players – These suppliers primarily provide single-process outsourcing currently but are also firming up their plans to offer multi-process HRO

Infosys

TATA

WIPRO
Applying Thought

Inactive HRO players

- Existing HRO suppliers that are not pursuing new HRO deals actively – These are suppliers that signed HRO deals earlier but seems to have adopted a wait-and-watch policy in terms of pursuing new deals

Capgemini

AON

Niche HRO players

- Existing HRO suppliers offering single-process outsourcing or partnering with other HRO suppliers – Having signed multi-process deals earlier, these suppliers currently provide outsourcing services in select processes and partner with other HRO suppliers to offer multi-process HRO

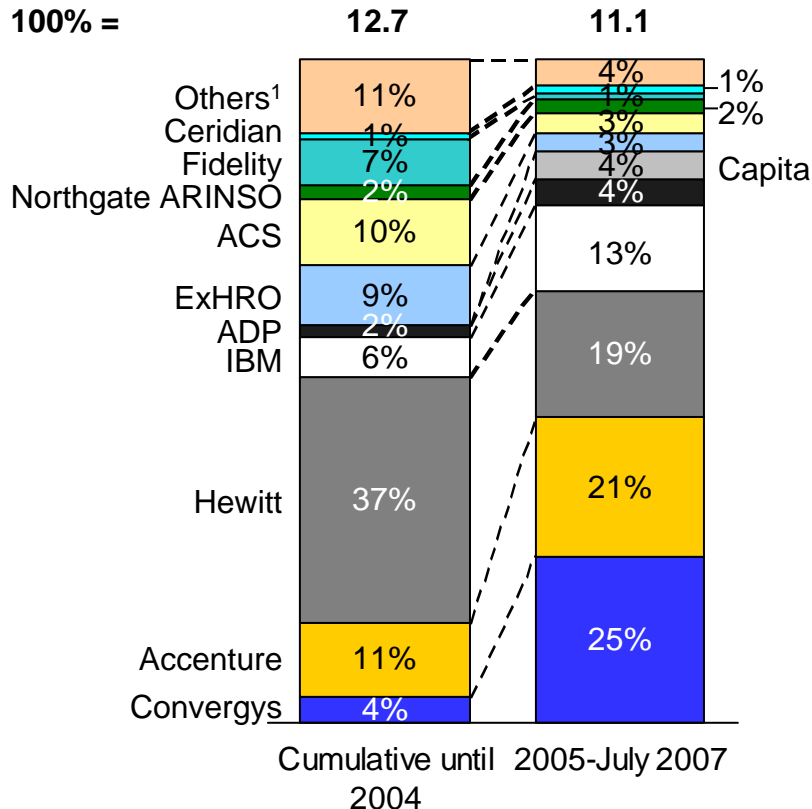
MERCER

Source: Everest Research Institute (2007)

Since 2005, Convergys, Accenture and IBM have gained significant HRO market share (in terms of TCV)

Supplier share distribution

TCV in US\$ billion



- While Convergys signed relatively fewer deals in the last 2.5 years, it won large global deals (e.g., DuPont, Johnson & Johnson). It resulted in Convergys' market share, measured in TCV, to reach 25% in the post-2004 period.
- Accenture and IBM increased their market share (in terms of TCV) by signing more deals, some of them quite big (e.g., Unilever – Accenture, American Airlines-IBM).
- Hewitt, on the other hand, signed very few large global deals since 2005 compared to the period before that. As a result, its market share dropped from 37% to 19% in the post-2004 period
- Post-2004, while ADP signed a large number of deals, most are of smaller TCV. Hence, its market share (in terms of TCV) still lags behind Convergys, Accenture, Hewitt, and IBM

1 Includes AON, Capgemini, Fujitsu, LogicaCMG, Mercer, Xchanging and Xansa

Sample size: 207 HRO transactions signed as of July 2007

Source: Everest Research Institute (2007)

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